PARK RIVER AREA SCHOOL
DISTRICT NO. 8
PARK RIVER, NORTH DAKOTA

FINANCIAL STATEMENTS
For the Year Ended
JUNE 30, 2016

Mortenson & Rygh
Certified Public Accountants
1203 Park Street East
Park River, North Dakota 58270

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Park River, North Dakota
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Year Ended June 30, 2016

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
List of Officials
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Bill Bata	Board Member
Bradley Brummond	Board Member
Diana Hahn	Board Member
Kelly Houser	Board Member
Tracy Laaveg	Board Member
Terry Novak	Board Member
Jennifer Thompson	Board Member
Kirk Ham	Superintendent
Roberta Hinkel	Business Manager

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INDEPENDENT AUDITOR'S REPORT

To the School Board
Park River Area School District No. 8

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Park River Area School District No. 8 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

CAVALIER | PARK RIVER | LANGDON | STEPHEN

206 Dakota Street West, P.O. BOX 33, Cavalier, ND 58220, (701) 265-8644

1203 Park Street East, P.O. BOX 287, Park River, ND 58270, (701) 284-7616

817 3rd Street, FM Mall, Langdon, ND 58249, (701) 256-3559

413 5th Street, P.O. BOX 45, Stephen, MN 56757, (218) 478-2880

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Park River Area School District No. 8, as of June 30, 2016, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, Schedule of Employer's Share of Net Pension Liability, and Schedule of Employer's Contributions as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Park River Area School District No. 8's basic financial statements. The accompanying detailed Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the Park River Area School District No. 8's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Park River Area School District No. 8's internal control over financial reporting and compliance.

Mortenson & Rygh

Mortenson & Rygh
Certified Public Accountants
September 30, 2016

BASIC FINANCIAL STATEMENTS

PARK RIVER AREA SCHOOL DISTRICT NO. 8

Park River, North Dakota

Statement of Net Position

June 30, 2016

		Governmental Activities
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$	2,277,433
Accounts Receivables		180,405
Taxes Receivable		146,623
Total Current Assets		2,604,461
NON-CURRENT ASSETS		
Capital Assets net of Accumulated Depreciation		16,485,953
Total Non-Current Assets		16,485,953
Total Assets		19,090,414
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pension		866,688
Total Deferred Outflows of Resources		866,688
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	19,957,102
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$	757,835
Interest Payable		100,718
Current Portion of Non-Current Liabilities		403,952
Total Current Liabilities		1,262,505
NON CURRENT LIABILITIES		
Bonds Payable		10,472,741
Capitalized Leases Payable		484,941
Less Amount of Debt Due Within One Year		(403,952)
Sick Leave Payable		37,820
Net Pension Liability		4,663,783
Total Non-Current Liabilities		15,255,333
Total Liabilities		16,517,838
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pension		317,036
Total Deferred Inflows of Resources		317,036
TOTAL LIABILITIES AND DEFERRED INFLOWS		16,834,874
NET POSITION:		
Net Investment in Capital Assets		5,071,298
Restricted for:		
Capital Projects		560,303
Debt Service		246,672
Food Service		46,204
Special Reserve		198,838
Other		100,064
Unrestricted		(3,101,151)
Total Net Position		3,122,228
TOTAL LIABILITIES AND NET POSITION	$	19,957,102

The notes to the financial statements are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Statement of Activities
Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Functions/Programs:	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Total Governmental Activities**
Governmental Activities:					
Regular Instruction	$ 2,358,929	$ -	$ 12,032	$ 39,202	$ (2,307,695)
Special Education	741,309	-	-	-	(741,309)
Vocational Education	173,083	-	7,491	-	(165,592)
Federal Programs	180,737	-	169,330	-	(11,407)
Other Programs & Services	343,024	4,600	-	-	(338,424)
Student Support Services:					
Board of Education	162,627	-	-	-	(162,627)
Superintendent	168,532	-	-	-	(168,532)
Business Office	62,931	-	-	-	(62,931)
Operation and Maintenance	828,989	-	-	50,889	(778,100)
Transportation	271,524	-	148,859	19,000	(103,665)
Library	77,359	-	-	-	(77,359)
Other Support Services	5,600	-	-	-	(5,600)
Facilities Rent	4,000	-	-	-	(4,000)
Food Service	240,081	145,842	92,751	-	(1,488)
Interest & Fees on Long Term Debt	316,258	-	-	-	(316,258)
Total Primary Government	$ 5,934,982	$ 150,442	$ 430,463	$ 109,091	$ (5,244,988)

General Revenues:	
Property Taxes Levies for:	
General Purposes	$ 849,629
Building Fund	133,187
Special Reserve	37,765
Sinking & Interest	588,780
Federal & State Aid not restricted to special purposes	3,973,813
Sale of Assets	3,200
Donations	200,000
Other Revenues	154,980
Total General Revenues	5,941,355
Change in Net Position	696,367
Net Position - July 1	2,425,861
Net Position - June 30	$ 3,122,228

The notes to the financial statements are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Balance Sheet -Governmental Funds
June 30, 2016

	General	Bldg & Cap Projects Fund	Sinking Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	$ 1,188,034	$ 548,811	$ 297,082	$ 243,505	$ 2,277,433
Accounts Receivable	180,405	-	-	-	180,405
Taxes Receivable	85,024	11,492	46,841	3,266	146,623
Total Assets	$ 1,453,463	$ 560,303	$ 343,923	$ 246,771	$ 2,604,461
LIABILITIES AND FUND BALANCE:					
LIABILITIES					
Accounts Payable	$ 299,132	$ 456,973	$ -	$ 1,730	$ 757,835
Interest Payable	3,466	-	97,252		100,718
Total Liabilities	302,598	456,973	97,252	1,730	858,553
DEFERRED INFLOWS OF RESOURCES:					
Uncollected Taxes Receivable	39,930	6,845	26,670	1,948	75,393
Total Liabilities & Deferred Inflows of Resources	342,528	463,818	123,922	3,677	933,945
Fund Balances:					
Restricted for:					
Debt service	-	-	220,002	-	220,002
Capital projects	-	96,485	-	-	96,485
Special reserve fund	-	-	-	196,890	196,890
Other purposes	100,064	-	-	-	100,064
Committed to:					
Food Service	-	-	-	46,204	46,204
Unassigned	1,010,871	-	-	-	1,010,871
Total Fund Balance	1,110,935	96,485	220,002	243,094	1,670,516
Total Liabilities & Fund Balance	$ 1,453,463	$ 560,303	$ 343,923	$ 246,771	$ 2,604,461

The notes to the financial statements are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Total *Fund Balance* for Governmental Funds		$ 1,670,516
Total *net position* reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Cost of Capital Assets	$ 17,314,728	
Less: Accumulated Depreciation	(828,775)	
Net Capital Assets		16,485,953
Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds		75,393
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term, are reported in the statement of net position.		
Total Bonds Payable		(10,472,741)
Capital Lease Payable		(484,941)
Net Pension Liability		(4,663,783)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		
Deferred outflows related to pensions		866,688
Deferred inflows related to pensions		(317,036)
Total *Net Position* of Governmental Activities		$ 3,122,228

The notes to the financial statements are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8

Park River, North Dakota

Statement of Revenues, Expenses, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2016

	General	Bldg & Cap Projects Fund	Sinking Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Local Sources	$ 953,914	$ 132,141	$ 568,986	$ 37,441	$ 1,692,482
State Sources	4,202,085	10,000	-	3,105	4,215,190
Federal Sources	208,531	-	22,186	89,646	320,363
School Lunch Sales	-	-	-	145,842	145,842
Donations	200,000	-	-	-	200,000
Other Sources	548	-	-	-	548
Total Revenues	5,565,078	142,141	591,172	276,033	6,574,425
Expenditures:					
Regular Instruction Programs	2,332,562	-	-	-	2,332,562
Special Education Programs	741,309	-	-	-	741,309
Vocational Education	173,083	-	-	-	173,083
Federal Programs	180,737	-	-	-	180,737
Other Programs & Services	343,024	-	-	-	343,024
Student Support Services					
Board of Education	162,627	-	-	-	162,627
Superintendent	168,532	-	-	-	168,532
Business Office	62,931	-	-	-	62,931
Operation and Maintenance	513,119	-	-	-	513,119
Other Equipment	-	-	-	-	-
Transportation	217,795	-	-	-	217,795
Library	77,359	-	-	-	77,359
Instruction Staff Training	5,600	-	-	-	5,600
Food Service	-	-	-	237,683	237,683
Facilities Rent	4,000	-	-	-	4,000
Capital Outlay:					
Facility Acquisiton & Construction	295,402	8,983,916	-	1,725	9,281,044
Debt Service:					
Principal Payments	-	-	219,451	-	219,451
Interest Payments	3,466	-	208,602	-	212,068
Total Expenditures	5,281,546	8,983,916	428,052	239,409	14,932,923
Excess Revenues over (under) Expenditures	283,532	(8,841,775)	163,120	36,625	(8,358,498)
Other Financing Sources(Uses):					
General Obligation Bonds Issued	-	10,288,858	-	-	10,288,858
Capital Lease Financing	-	484,941	-	-	484,941
Bond Premium	-	48,014	-	-	48,014
Bond Issuance Costs	-	(126,377)	-	-	(126,377)
Interest Income	757	-	522	405	1,685
Sale of Fixed Assets	3,200	-	-	-	3,200
Interfund Transfers In	41,802	537,565	60,641	-	640,009
Interfund Transfers (Out)	(598,206)	-	(9,586)	(32,216)	(640,009)
Net Change in Fund Balances	(268,915)	2,391,228	214,698	4,814	2,341,824
Fund balance - July 1	1,379,850	(2,294,742)	5,304	238,280	(671,308)
Fund balance - June 30	$ 1,110,935	$ 96,485	$ 220,002	$ 243,094	$ 1,670,516

The notes to the financial statements are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Reconciliation of the Statement of Revenues, Expenses, and Changes in Fund Balances to the Statement of Activities - All Governmental Fund Types
Year Ended June 30, 2016

Net Change in *Fund Balance* - Total Governmental Funds		$ 2,341,824
The change in net position reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenses. However, **in** the statement of activities assets with an initial, individual cost of more than $5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Asset Additions	9,279,319	
Current Year Depreciation Expense	(370,272)	8,909,047
Governmental funds expense sick pay as incurred. However, in the statement of activities, sick pay is expensed when the liability is deemed measurable. This is the amount the accrued sick leave liability decreased during the year.		(37,820)
Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This is the increase (decrease) in taxes receivable from the prior year.		26,212
Governmental funds report debt principle payments as an expense. However in the statement of activities debt principle is not expensed nor is the receipt of borrowed funds treated as income. This is the amount by which debt repayment exceeded debt proceeds:		
Issuance of Bonds	(10,288,858)	
Issuance of Capital Lease	(484,941)	
Repayment of Long-Term Debt	219,451	(10,554,348)
Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
District pension contributions	306,847	
Cost of benefits earned net of employee contributions	(295,394)	11,453
Change in *Net Position* of Governmental Activities		$ 696,368

The notes to the financial statements are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Statement of Fiduciary Net Assets - Agency Fund
June 30, 2016

Assets:	
Cash and Investments	$ 225,058
Liabilities	
Due to Student Groups	$ 225,058

The notes to the financial statements are an integral part of this statement.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements have been prepared in accordance with generally accepted accounting principles *(GAAP)* as applied to government units in the United States of America. The *Governmental Accounting Standards Board (GASB)* is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The District's Board of Education is the level of government, which has financial accountability, responsibility and control over all activities related to the public school education in the District's boundaries. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined by the related Governmental Account Standards Board Statement 14, since the Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operation and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14, which are included in the District's reporting entity.

The District's financial statements include all of the District's operations. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from Park River Area School District No. 8.

B. Basis of Presentation

The District's basic financial statements consist of government-wide statements and fund financial statements.

Government-wide Statements: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Position presents the financial condition of the governmental activities of the District at year end. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct Expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to students or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues, as are internally dedicated resources.

Fund Financial Statements: The fund financial statements provide information about the District's funds. Separate financial statements are provided for governmental funds and a fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, reserves, fund equity, receipts and disbursements, as appropriate. The various funds are summarized by type in the fund financial statements. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund types are used by the District:

GOVERNMENTAL FUND TYPES

General Fund (a major governmental fund) – The general fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from this fund.

Building & Capital Projects Fund – This fund has its own mill levy dedicated to major construction projects. Levy funds can also be used for property insurance premiums covering school district property.

Sinking Funds – Sinking funds are used to accumulate revenues dedicated to debt service and to retire corresponding debt issues as the interest and principal come due.

FIDUCIARY FUND TYPE

Agency Funds - Agency funds are used to account for assets held by the school district in a trustee capacity or as an agent for student body groups.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statement of net position and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents

Cash includes amounts in demand deposits, money market accounts and certificates of deposit with maturity of three months or less. State law requires district funds to be deposited in a financial institution situated and doing business within this state.

F. Capital Assets

Capital assets, which include land, buildings and improvements and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects and constructed. Buildings & improvements and furniture & equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building Improvements	40
Buses	10
Furniture & equipment	10
Vehicles	5
Computer & electronic equipment	5

G. Accrued Liabilities and Long-Term Obligations

In the government-wide financial statements, accounts payable and long term obligations are reported in the governmental activities statement of Net Position. The District’s governmental fund financials report only those obligations that will be paid from current financial resources.

H. Net Position/Fund Balance

Government-wide Financial Statements

Equity is classified in the government-wide financial statements as net position and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statement

Beginning with fiscal year 2012, the District implemented GASB Statement 54, Fund Balance Reporting in Governmental Fund Types Definitions. The governmental fund financial statements present fund balances based on a hierarchy that shows, from highest to lowest, the level or form of constraints on fund balance resources and the extent to which the District is bound to honor them. The District first determines and reports non-spendable balances, then restricted, then committed, and so forth. The District's governmental fund balances have been restated to reflect the below classifications. Fund balance classifications are summarized as follows:

Non-spendable fund balance – This category includes fund balance amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

Restricted fund balance – This category includes net fund resources that are subject to external constraints that have been placed on the use of resources either (a) imposed by creditors, grantors, contributors, or laws regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – This category includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the School Board. The commitment can only be removed through the same action. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This category includes Governmental Fund balance that the district intents to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by written approval of the District's administration comprised of the School Board.

Unassigned fund balance – This category included the residual balances in the governmental fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purpose within the General Fund.

Deferred Outflows/Inflows of Resources

Deferred Outflows of resources on the Statement of Net Position represent consumption of resources applicable to future periods and so will not be recognized as an expense until then. The District's only deferred outflows of resources reported on the statement of net position are related to defined benefit pension plans (TFFR and NDPERS). The amount represents actuarial differences within the pension plans as well as contributions to the plans made after the measurement date.

Deferred Inflows of resources on the Statement of Net Position represent acquisition of resources applicable to future periods and so will not be recognized as revenue until that time. The District's only deferred inflow of resources on the Statement of Net Position are related to defined benefit pension plans (TFFR and NDPERS). The amount represents actuarial differences within the pension plans.

I. Interfund Transactions

Quasi-external transactions are accounted for as receipts or disbursements. Transactions that constitute reimbursements to a fund for receipts/disbursements initially made from it that are properly applicable to another fund, are recorded as disbursements in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Memorandum Only - Total Columns

Total columns to the financial statements are captioned *"memorandum only"* to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 LEGAL COMPLIANCE – BUDGETS

Budget Amendments

The school district's governing board approved the following amendments to the District's budget:

Budget Amendments:	Original Budget	Amendment	Amended Budget
	Revenues		
Major Funds:			
General Fund	$ 5,343,261	$ 18,656	$ 5,361,917
	Expenditures		
Major Funds:			
General Fund	$ 5,285,624	$ 34,685	$ 5,320,309

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with North Dakota statutes, the District maintains deposits in financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the District to invest in:

- **a)** Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress,
- **b)** Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above,
- **c)** Certificates of Deposit fully insured by the federal deposit insurance corporation or pledge of governmental securities,
- **d)** Obligations of the state.

B. Investments

Concentration of credit risk – The risk of loss due to the magnitude of investments in a single issuer. The District only invests in Certificates of Deposit wherein the issuer collateralizes the certificate with governmental securities.

Interest rate risk – The risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District only invests in Certificates of Deposit which are always purchased and redeemable at face value.

At year ended June 30, 2016, the school district's carrying amount of deposits totaled $2,560,491 and the bank balances totaled $2,655,896. Of the bank balances, $716,674 was covered by Federal Depository Insurance. The remaining bank balances totaling $1,939,221 were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 PROPERTY TAXES

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

Budgets are adopted on the modified accrual basis. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at year-end. See Note 2 for explanation of filing date requirements.

NOTE 5 PENSION PLAN

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Teachers' Fund for Retirement (TFFR) and the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from TFFR's and NDPERS' fiduciary net positions have been determined on the same basis as they are reported by TFFR and NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plans

A. North Dakota Teachers' Fund for Retirement

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The TFFR Board submits any necessary or desirable changes in statutes relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contribution rates.

Pension Benefits

For purposes of determining pension benefits, members are classified within one of three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

Tier 1 Grandfathered

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 1 Non-grandfathered

A Tier 1 non-grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 2

A Tier 2 member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Death and Disability Benefits

Death benefits may be paid to a member’s designated beneficiary. If a member’s death occurs before retirement, the benefit options available are determined by the member’s vesting status prior to death. If a member’s death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member’s actual years of credited service. There is no actuarial reduction for reason of disability retirement.

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher’s salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Employer reported a liability of $4,268,604 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the pension plan relative to the covered payroll of all participating TFFR employers. At July 1, 2015, the Employer's proportion was 0.326382 percent, which was a decrease of 0.017592 from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the Employer recognized pension expense of $254,044. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experiences	$	27,972	$	-
Changes of assumptions		479,291		-
Net difference between projected and actual earnings on pension plan investments		-		48,135
Changes in proportion and differences between Employer contributions and proportionate share of contributions		-		174,741
*Employer contributions subsequent to the measurement date of July 1, 2015		260,025		-
Total	$	767,288	$	222,876

$260,025 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2017	$	19,831
2018		19,831
2019		19,831
2020		116,958
2021		56,146
Thereafter		51,791
Total	$	284,388

Actuarial assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.25% to 14.50%, varying by service, including
Investment rate of return	7.75%, net of investment expenses
Cost-of-living adjustments	None

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using Scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using Scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for TFFR.

As a result of the April 30, 2015 actuarial experience study, the TFFR Board adopted several assumption changes, including the following:

- Investment return assumption lowered from 8% to 7.75%.
- Inflation assumption lowered from 3% to 2.75%.
- Total salary scale rates lowered by 0.25% due to lower inflation.
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation.
- Rates of turnover and retirement were changed to better reflect anticipated future experience.
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Global Equities	57%	7.5%
Global Fixed Income	22%	1.3%
Global Real Assets	20%	5.4%
Cash Equivalents	1%	0.0%

Discount rate. The discount rate used to measure the total pension liability was 7.75% percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015. The discount rate used to measure the total pension liability changed from 8% to 7.75% based on the investment return assumption change as a result of the April 30, 2015 actuarial experience study.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	**Current Discount Rate (7.75%)**	**1% Increase (8.75%)**
Employer's proportionate share of the net pension liablity	5,641,162	4,268,604	3,123,920

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report.

B. North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:

1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Employer reported a liability of $307,019 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2015, the Employer's proportion was 0.058116 percent, which was a decrease of 0.000805 percent from its proportion measured as of July 1, 2014.

For the year ended June 30, 2016, the Employer recognized pension expense of $25,932. At June 30, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	$ 11,465	$ -
Changes of assumptions		35,209
Net difference between projected and actual earnings on pension plan investments	45,662	54,004
Changes in proportion and differences between Employer contributions and proportionate share of contributions	92	4,947
*Employer contributions subsequent to the measurement date of July 1, 2015	42,169	-
Total	$ 99,388	$ 94,160

$48,921 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	$ (11,674)
2018	(11,674)
2019	(11,674)
2020	5,564
2021	(7,481)
Thereafter	-
Total	$ (36,939)

Actuarial assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum for four years
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Estate	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	**Current Discount Rate (8%)**	**1% Increase (9%)**
Employer's proportionate share of the net pension liablity	605,987	395,179	222,700

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

NOTE 6 RISK MANAGEMENT

The Park River Area School District No. 8 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The district pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence.

The Park River Area School District No. 8 also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The district pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period.

The State Bonding Fund currently provides the school district with blanket fidelity bond coverage in the amount of $835,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage. The school district also participates in North Dakota Workforce Safety and Insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 7 CAPITAL ASSETS

Capital Asset activity for the Year Ended June 30, 2016 was as follows:

	July 1, 2015	Increases	Decreases	June 30, 2016
Capital Assets, not being depreciated:				
Construction in Progress	$ 2,314,987	$ -	$ (2,314,987)	$ -
Total Capital Assets Not Being Depreciated	2,314,987	-	(2,314,987)	-
Capital Assets, being depreciated:				
Buildings	4,816,273	11,436,391	-	16,252,664
Furniture & Equipment	484,649	90,939	-	575,589
Buses & Vehicles	419,500	66,975	-	486,475
Total Capital Assets Being Depreciated	$ 5,720,422	$ 11,594,305	$ -	$ 17,314,728
Accumulated depreciation:				
Buildings	(299,218)	(274,484)	-	(573,702)
Furniture & Equipment	(66,695)	(42,059)	-	(108,754)
Buses & Vehicles	(92,590)	(53,729)		(146,319)
Total Accumulated Depreciation	$ (458,503)	$ (370,272)	$ -	$ (828,775)
Total Capital Assets Being Depreciated, Net	$ 5,261,919	$ 11,224,034	$ -	$ 16,485,953
Governmental Activities Capital Assets, Net	$ 7,576,906	$ 11,224,034	$ (2,314,987)	$ 16,485,953

Depreciation was expensed to the following functions:

Bus Vehicle Depreciation	53,729
Bldg & Equipment Depreciation	315,870
Food Service Fund	672
Total Depreciation Expense	370,272

NOTE 8 DEFERRED REVENUE

In conjunction with the implementation of GASB pronouncement 33 “Accounting and Financial Reporting for Nonexchange Transactions”, the District has accrued property tax receivables and deferred property tax revenues in the following funds:

	Receivable	Deferred
General Fund	$85,024	$39,930
Capital Project Fund	11,492	6,845
Sinking & Interest Fund	46,841	26,670
Special Reserve Fund	3,266	1,948
	$146,623	$75,393

Accrued and deferred property tax revenues are outstanding property taxes that are an enforceable lien on property as of the balance sheet date but, using the modified accrual basis of accounting, wherein revenues are recognized when they are both measurable and available (expected to be received within 60 days) they are not recognized as revenues. Therefore, the District has recorded the estimated property tax receivables as deferred revenue in the fund financial statements.

NOTE 9 GRANTS

The District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such an audit could become a liability of the General Fund or other applicable fund. Based on prior experience, the District administration believes such disallowance, if any, would be immaterial.

NOTE 10 COMPENSATED ABSENCES

A teacher is allowed sick leave at the rate of 10 days for each year employed by the school district. Teachers who began their employment after July 1, 2000 are allowed to accumulate unused sick leave up to 90 days. Teachers who began their employment before July 1, 2000 may accumulate up to 180 day of sick leave. The district does not pay unused sick leave upon termination of employment.

Teachers are also allowed 3 personal days per year and may accumulate up to 5 personal days. Teachers who accumulate more than 5 days may be compensated $200 for each unused personal day that could not be accumulated. Compensation for all earned and available personal leave is paid upon termination of employment with the district.

NOTE 11 LONG TERM DEBT

Long-term liability activity for the year ended June 30, 2016 is as follows:

	Balance 7/1/2015	Debt Paid	Debt Issued	Balance 6/30/2016	Due Within One Year
Building Bonds of 2009	93,334	(9,333)	-	84,000	9,333
Building Bonds Series 2010	300,000	(30,000)	-	270,000	30,000
General Obligation School Building Bonds, Series 2015A	10,000	-	870,000	880,000	35,000
Limited Tax Building Fund Bonds Series 2015B	-	-	1,330,000	1,330,000	30,000
General Obligation State School Const. Fund Series 2015C	-	(180,117)	8,088,858	7,908,741	247,318
Capital Lease	-	-	484,941	484,941	52,301
	$ 403,334	$ (219,451)	$ 10,773,799	$ 10,957,682	$ 403,952

The annual requirement to amortize all general obligation bonds outstanding as of June 30, 2016, including interest payments are as follows:

Year Ending June 30	General Obligation Bonds Principal	Interest	Total
2017	$ 351,652	$ 248,948	$ 600,600
2018	364,172	242,703	606,875
2019	382,327	236,176	618,503
2020	396,147	229,128	625,275
2021	410,667	221,620	632,287
2022-2026	2,283,870	958,072	3,241,942
2027-2031	2,957,115	583,339	3,540,454
2032-2036	3,326,791	200,984	3,527,775
Total	$ 10,472,741	$ 2,920,969	$ 13,393,710

General Obligation Bonds – General obligation bonds payable at June 30, 2016, with their outstanding balance are comprised of the following individual issues:

$140,000 Limited Tax School Building Fund Bonds, Series 2009
The school district issued bonds during 2009 designated as “$140,000 Limited Tax School Building Fund Bonds, Series 2009” issued pursuant to Chapter 21-03 of the ND Century Code and pursuant to Section 54F of the Internal Revenue Code of 1986, as amended. The bonds carry no interest; the purchaser of the bonds receives a federal income tax credit in lieu of periodic interest payments. Principal payments of $9,333 are made annually through 2025.

Outstanding June 30, 2016	84,000

Taxable Limited Tax School Building Bonds, Series 2010
In 2010, the school district issued “Taxable Limited Tax School Building Bonds, Series 2010” in the amount of $450,000. The bonds were issued pursuant to Sections 21-03-07, 21-03-09, and 21-03-14 of the ND Century Code, pursuant to Section 54F of the Internal Revenue Code of 1986, as amended. The bonds were sold to First United Bank of Park River, ND. This issue matures over a period of fifteen years and is due annually. The interest rate on the bonds is 5.29%.

Outstanding June 30, 2016	270,000

General Obligation School Building Bonds, Series 2015A
On July 8, 2015 the school district issued “General Obligation School Building Bonds, Series 2015A” in the amount of $880,000. The bonds carry an interest rate varying from 1.10% to 3.50%, with a true interest rate of 3.2560%. Interest is due semiannually and principal is due annually. This issue is scheduled to mature August 1, 2034.

Outstanding June 30, 2016	880,000

Limited Tax Building Fund Bonds, Series 2015B
On August 20, 2015 the school district issued “Limited Tax Building Fund Bonds, Series 2015B in the amount of $1,330,000. The bonds carry an interest rate varying from 3.00% to 3.750%, with a true interest rate of 3.3163%. Interest is due semiannually and principal is due annually. The issue is scheduled to mature August 1, 2034.

Outstanding June 30, 2016	1,330,000

General Obligation State School Construction Fund Bonds, Series 2015C
On July 30, 2015 the school district issued “General Obligation State School Construction Fund Bonds, Series 2015C” in the amount of $8,088,858. The bonds carry an interest rate at 5.0%, until July 1, 2025, and thereafter at a rate established by BND pursuant to Chapter 15.1-36 of the N.D.C.C. From the date of issue until July 1, 2025 the district will receive interest buydown funds from the State to reduce the interest rate on the bonds to 2.00%. Principal and interest payments are due semiannually through September 2035.

Outstanding June 30, 2016	7,908,741
Total Bonds Outstanding June 30, 2016	$10,472,741

NOTE 12 CAPITAL LEASE

The District entered into a capital lease to finance equipment purchased in conjunction with construction of a new addition. The lease is for 10 years at a 3.302% interest rate. The last payment is due in 2025.

Outstanding June 30, 2016	$484,941

The annual requirement to amortize the capital lease outstanding as of June 30, 2016, including interest payments are as follows:

Year Ending	Capital Lease Payments		
June 30	Principal	Interest	Total
2017	$ 52,301	$ 4,045	$ 56,346
2018	42,068	14,278	56,346
2019	43,457	12,889	56,346
2020	44,891	11,455	56,346
2021	46,372	9,974	56,346
2022-2026	255,852	25,878	281,730
Total	$ 484,941	$ 78,519	$ 563,460

NOTE 13 INTERFUND TRANSFERS

Operating transfers for the fiscal year ended June 30, 2016 were as follows.

Fund	**In**	**Out**
General Fund	41,802	598,206
Special Reserve	-	32,216
Capital Projects Fund	537,565	-
Sinking Fund Bonds of 2005	-	9,586
Parking Lot Bonds Series 2010	31,619	-
Bus Barn Bonds Series 2009	9,333	-
Building Bonds Series 2015	19,689	-
Total	$ 640,009	$ 640,009

Transfers were made for cash management requirements, debt service requirements, and to fund construction of a new addition.

NOTE 14 FORMATION OF THE DISTRICT

Effective July 1, 2013 the Park River Public School District No. 78 merged with the Adams Public School District No. 128 forming the Park River Area School District No. 8 with all the assets and liabilities of both districts being assumed by the new entity. All employees were effectively terminated and most were rehired by the new district. Because of duplication between the districts, some employees were not rehired. The merger was made due to declining enrollments in Adams and relatively stable enrollments in Park River. The ending balances of both districts became the beginning balances in the accounting records of the new district. All fixed assets were recorded by the new district at their historical cost less applicable depreciation. Only Park River Public School District No. 78 had debt outstanding, which was assumed by the new district.

REQUIRED SUPPLEMENTARY INFORMATION

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2016

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Local Sources	$ 973,542	$ 973,542	$ 953,914	$ (19,628)
State Sources	4,218,670	4,218,670	4,202,085	(16,585)
Federal Sources	151,049	169,705	208,531	38,827
Other Sources	0	0	204,506	204,506
Total Revenues	5,343,261	5,361,917	5,569,036	207,119
Expenditures:				
Regular Instruction Programs	2,461,899	2,461,899	2,332,562	129,337
Special Education	765,915	765,915	741,309	24,606
Vocational Instruction	222,717	168,210	173,083	(4,873)
Federal Programs	150,049	184,733	180,737	3,996
Other Programs & Services	284,884	339,391	343,024	(3,633)
Student Support Services				
Board of Education	191,638	191,638	162,627	29,011
Superintendent	168,715	168,715	168,532	183
Business Office	62,198	62,198	62,931	(733)
Operation and Maintenance	609,916	609,916	808,521	(198,605)
Transportation	278,497	278,497	217,795	60,702
Library	79,197	79,197	77,359	1,838
Instruction Staff Training	6,000	6,000	5,600	400
Facilities Rent	4,000	4,000	4,000	0
Interest	-	-	3,466	(3,466)
Total Expenditures	5,285,624	5,320,309	5,281,546	38,763
Excess Revenues over (under) Expenditures	57,636	41,608	287,489	245,882
Interfund Transfers In	28,000	28,000	41,802	
Interfund Transfers In (Out)	(410,762)	(410,762)	(598,206)	
Net Change in Fund Balance	(325,126)	(341,155)	(268,915)	
Fund balance - July 1	1,379,850	1,379,850	1,379,850	
Fund balance - June 30	$ 1,054,724	$ 1,038,695	$ 1,110,935	

The notes to the required supplementary information are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Budgetary Comparison Schedule - Building Fund
Year Ended June 30, 2016

	Building Fund		
	Original & Final Budget	Actual	Variance
Revenues			
Local Sources	$ 130,000	$ 132,141	$ 2,141
State Sources	-	10,000	10,000
Total Revenues	130,000	142,141	12,141
Expenditures			
Facility Construction	10,370,000	8,983,916	1,386,084
Interest & Fees on Debt	-	126,377	(126,377)
Total Expenditures	10,370,000	9,110,293	1,259,707
Excess Revenues over (under) Expenditures	(10,240,000)	(8,968,151)	1,271,849
Other Financing Sources/Transfers:			
Bond & Lease Proceeds	10,310,173	10,821,813	
Interfund Transfers In (Out)	350,000	537,565	
Net Change in Fund Equity	420,173	2,391,228	
Fund balance - July 1	(2,294,742)	(2,294,742)	
Fund balance - June 30	$ (1,874,569)	$ 96,485	

The notes to the required supplementary information are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Budgetary Comparison Schedule – Sinking & Interest Fund
Year Ended June 30, 2016

	Sinking Fund		
	Original & Final Budget	Actual	Variance
Revenues:			
Local Sources	$ 609,413	$ 568,986	$ (40,427)
Federal Sources	22,065	22,186	121
Other Sources	260	522	262
Total Revenues	631,738	591,695	(40,043)
Expenditures:			
Principal & Interest Payments	294,266	428,052	(133,786)
Total Expenditures	294,266	428,052	(133,786)
Excess Revenues over (under) Expenditures	337,472	163,643	(173,829)
Interfund Transfers In (Out)	60,762	51,055	
Net change in Fund Balance	398,234	214,698	
Fund balance - July 1	5,304	5,304	
Fund balance - June 30	$ 403,538	$ 220,002	

The notes to the required supplementary information are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Schedule of District's Share of Net Pension Liability
ND Teachers' Fund for Retirement
Last 10 Fiscal Years*

Year Ended June 30	Employeer's Proportions Of the Net Pension Liability (Asset)	Employeer's Proportionate Share Of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share Of the Net Pension Liability (Asset) As a % of its covered-employee Payroll	Plan Fiduciary Net Position As a % of the Total Pension Liability
2015	0.343974%	3,604,238	1,995,232	180.6%	66.6%
2016	0.326382%	4,268,604	2,007,593	212.6%	62.1%

*Complete data for this schedule is not available prior to 2015.

The notes to the required supplementary information are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Schedule of District's Contributions
ND Teachers' Fund for Retirement
Last 10 Fiscal Years*

Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$214,485	($214,485)	$0	$1,995,232	10.75%
2016	$255,956	($255,956)	$0	$2,007,593	12.75%

*Complete data for this schedule is not available prior to 2015.

The notes to the required supplementary information are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Schedule of District's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

Year Ended June 30	Employeer's Proportions Of the Net Pension Liability (Asset)	Employeer's Proportionate Share Of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share Of the Net Pension Liability (Asset) As a % of its covered-employee Payroll	Plan Fiduciary Net Position As a % of the Total Pension Liability
2015	0.058921%	$373,984	$496,336	75.3%	77.70%
2016	0.058116%	$395,179	$517,742	76.3%	77.15%

*Complete data for this schedule is not available prior to 2015.

The notes to the required supplementary information are an integral part of this statement.

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Schedule of District's Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	$35,339	($35,339)	$0	$496,336	7.12%
2016	$39,327	($39,438)	($111)	$517,742	7.60%

*Complete data for this schedule is not available prior to 2015.

The notes to the required supplementary information are an integral part of this statement.

NOTE 1 BUDGETS

The District's board follows the procedures established by North Dakota law for the budgetary process. The business manager prepares an annual school district budget and property tax levy. The budget is prepared by funds, function and activity, and includes information on the past year, current year and requested appropriations for the next year.

The county treasurer collects all property taxes levied in the county, acting as agent for the various taxing authorities in the county. Collected taxes are remitted to the taxing authorities monthly unless the amount is insignificant.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- Administration prepares the District's budget using a modified accrual basis of accounting. The board reviews the budget and makes any necessary revisions. On or before July 31, the board adopts the final budget. The final budget and property tax levy request is sent to the county auditor by August 15.
- The budget may be amended during the year for any receipts and appropriations not anticipated at the time the budget was prepared except no amendment changing the taxes levied can be made after October 10.
- At year-end, the balance of each appropriation becomes a part of the unappropriated fund balance.

The following fund's expenses exceeded budgeted amounts for the year ended June 30, 2016:

Fund	Budget	Actual	Variance
Sinking Fund	$294,266	$428,052	$(133,786)

No corrective action by the governing board is planned.

NOTE 2 PENSIONS

North Dakota Teachers' Fund for Retirement

Changes of Assumptions. Amounts reported in 2016 reflect the following actuarial assumption changes effective July 1, 2015, based on the results of an actuarial experience study dated April 30, 2015.

- Investment return assumption lowered from 8% to 7.75%
- Inflation assumption lowered from 3% to 2.75%
- Total salary scale rates lowered by 0.25% due to lower inflation
- Added explicit administrative expense assumption, equal to prior year administrative expense plus inflation
- Rates of turnover and retirement were changed to better reflect anticipated future experience
- Updated mortality assumption to the RP-2014 mortality tables with generational improvement

North Dakota Public Employees Retirement System

Changes of Assumptions. Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015, based on the results of an actuarial experience study completed in 2015. This includes changes to mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

SUPPLEMENTARY INFORMATION

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Detailed Statement of Revenue, Expenditures and Changes in Fund Balance - General Fund
Year Ended June 30, 2016

	General Fund
REVENEUE:	
LOCAL SOURCES	
General Property Taxes	$ 778,547
Other Tax Revenue	66,035
Services Provided Other LEAs	97,726
Drivers Education	4,600
Other Local Sources	7,006
Total Local Sources	953,914
STATE SOURCES	
Per Pupil Aid	3,973,813
Transportation Aid	148,859
Homeland Security Grant	40,889
Clean Diesel Grant	19,000
Vocational Aid	7,491
State Grant Professional Development	12,032
Total State Sources	4,202,085
FEDERAL SOURCES	
Title I	112,046
Carl Perkins Grant	625
REAP Program	56,659
e-Rate Technology Grant	39,202
Total Federal Sources	208,531
OTHER SOURCES	
Donation	200,000
Miscellaneous Income	548
Total Other Sources	200,548
TOTAL REVENEUE	$ 5,565,078

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
(Cont'd) Detailed Statement of Revenue, Expenditures and Changes in Fund Balance - General Fund
Year Ended June 30, 2016

		General Fund
REGULAR INSTRUCTION:		
Kindergarten Instruction	$	107,638
Elementary Instruction		999,512
Elementary Principal		152,485
Middle School Instruction		249,476
Middle School Principal		32,730
Senior High Instruction		584,184
Interactive TV Instruction		26,359
High School Principal		82,193
All Classes Instruction		97,986
Total Regular Instruction		2,332,562
SPECIAL EDUCATION PROGRAMS:		
Learning Disabled		134,345
Special Programs		523,961
Preschool		83,004
Total Special Education Programs		741,309
VOCATIONAL EDUCATION:		
Vocational Programs		153,613
Vocational Agriculture		19,469
Total Vocational Education		173,083
FEDERAL PROGRAMS:		
Title I Programs		112,046
Other Federal Programs		68,691
Total Federal Programs		180,737
OTHER PROGRAMS:		
Home Economics & Consumer Instruction		58,151
Student Activities Instruction		56,710
Athletics Instruction		155,808
Driver's Ed Instruction		7,140
ESP		65,216
Total Other Programs	$	343,024

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
(Cont'd) Detailed Statement of Revenue, Expenditures and Changes in Fund Balance - General Fund
Year Ended June 30, 2016

	General Fund
STUDENT SUPPORT SERVICES:	
School Board	$ 162,227
Election Services	400
Superintendent	168,532
Support Services - Business	62,931
Operation & Maintenance of Plant	513,119
Student Transportation	217,795
School Library Services	76,493
City Library	866
Instructional Staff Training	5,600
CAPITAL OUTLAY	295,402
FACILITIES RENT	4,000
TOTAL EXPENSES	$ 5,278,080
Excess Revenue over (under) Expenses before Interfund Transfers	286,998
OTHER FINANCING SOURCES (USES)	
Interest Income	757
Sale of Fixed Assets	3,200
Interfund Transfers In	41,802
Interest Expense	(3,466)
Interfund Transfers (Out)	(598,206)
Net Change in Fund Balance	(268,915)
Fund balance - July 1	1,379,850
Fund balance - June 30	$ 1,110,935

MORTENSON RYGH
& ASSOCIATES | CERTIFIED PUBLIC ACCOUNTANTS
Accounting For Success

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the School Board
Park River Area School District No. 8

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Park River Area School District No. 8, Park River, North Dakota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the school district's basic financial statements and have issued our report thereon dated September 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Park River Area School District No. 8's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of school district's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2016-1 described in the accompanying schedule of findings and responses to be a material weakness.

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Park River, ND 58270
(701) 284-7616

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-3559

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies during our engagement.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Park River Area School District No. 8's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Park River Area School District No 8's's Response to Findings

Park River Area School District No. 8's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The school district's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mortenson & Rygh

Mortenson & Rygh
Certified Public Accountants
September 30, 2016

PARK RIVER AREA SCHOOL DISTRICT NO. 8
Park River, North Dakota
Schedule of Findings and Responses
For The Year Ended June 30, 2016

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2016-1 Segregation of Duties

Condition
The Park River Area School District No. 8, Park River, North Dakota has a lack of segregation of duties due to the limited number of office personnel. The school district has one bookkeeper responsible for most accounting functions and general ledger maintenance.

Criteria
The guidance relating to internal control is contained in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, code of conduct, and background investigations. Proper internal accounting control dictates that sufficient accounting personnel should exist so that incompatible duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the Park River Area School District No. 8.

Effect
Without adequate fraud risk programs and controls the school district exposes itself to risk of loss of assets, potential liabilities, and damage to reputation, whether due to error or fraud.

Recommendation
Due to the size and funding limitations of the entity, we understand that it is not feasible to obtain proper segregation of duties. However, if at any time it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the school district do so. We further recommend that the entity implement any controls possible to separate the function of approval, posting of transactions, reconciliation, and custody of assets.

Client Response
No response is considered necessary.